Crown Investments Corporation
of Saskatchewan

# Third Quarter Financial Report
# September 30, 2006

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# Introduction

Crown Investments Corporation of Saskatchewan (CIC) is the provincial government's holding company for its commercial Crown corporations. CIC has invested equity in its subsidiary Crown corporations and collects dividends from these corporations. CIC also holds the Province's investment in NewGrade Energy Inc. (NewGrade).

The purpose of the following discussion is to provide users of CIC's financial statements, with an overview of the Corporation's financial performance and the various measures CIC uses to evaluate its financial health. This narrative on CIC's 2006 third quarter financial results should be read in conjunction with the 2005 audited consolidated and non-consolidated financial statements.

To facilitate greater transparency and accountability, CIC prepares two different sets of financial statements: CIC's consolidated financial statements that report on the Crown sector; and CIC's non-consolidated financial statements that reflect its role as a holding corporation for the Province.

## CIC Consolidated Financial Statements

These statements show CIC's results consolidated with the results of its subsidiary Crown corporations. The financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and include:

- Financial results of subsidiary Crown corporations:
  Information Services Corporation (ISC), Investment Saskatchewan Inc. (IS), SaskEnergy Incorporated (SaskEnergy), Saskatchewan Development Fund Corporation (SDFC), Saskatchewan Government Growth Fund Management Corporation (SGGF MC), Saskatchewan Government Insurance (SGI), Saskatchewan Opportunities Corporation (SOCO), Saskatchewan Power Corporation (SaskPower), Saskatchewan Telecommunications Holding Corporation (SaskTel), Saskatchewan Transportation Company (STC), and Saskatchewan Water Corporation (SaskWater);
- CIC's wholly-owned share capital subsidiary First Nations and Métis Fund Inc.;
- CIC's share of NewGrade financial results;
- Costs incurred from its wholly-owned share capital subsidiary Gradworks Inc.;
- Dividends paid by CIC to the General Revenue Fund (GRF); and,
- CIC's operating costs, public policy expenditures and interest income on cash balances.

## CIC Non-Consolidated Financial Statements

CIC's non-consolidated financial statements are used by CIC to determine dividend capacity to the Province's GRF. The non-consolidated statements have not been and are not intended to be prepared in accordance with GAAP. These statements are intended to isolate the corporation's cash-flow, capital support for certain subsidiary Crown corporations and public policy expenditures. These financial statements include:

- Dividends of subsidiary Crown corporations (SaskPower, SaskTel, SaskEnergy and SGI);
- Dividends received from NewGrade;
- Dividends paid by CIC to the GRF;
- Grants to subsidiary corporations; and,
- CIC's interest income on cash balances, operating costs and public policy expenditures.

# Consolidated Financial Statements

## Management's Discussion and Analysis

### Major Lines of Business

CIC is involved in a broad array of industries through various forms of investment. A number of investments are held as wholly-owned subsidiaries, while others are joint ventures and partnerships, held either directly by CIC or through its wholly-owned subsidiaries.

Management's Discussion & Analysis (MD&A) highlights the primary factors that have an impact on the consolidated financial results and operations of CIC. It should be read in conjunction with CIC's unaudited interim consolidated financial statements and supporting notes for the nine months ended September 30, 2006. These interim financial statements have been prepared in accordance with the Canadian Institute of Chartered Accountants Handbook Section 1751.

The unaudited interim consolidated financial statements do not contain all the disclosures included in CIC's annual audited consolidated financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with CIC's most recent annual financial statements released on April 27, 2006.

For purposes of the MD&A on CIC's consolidated results, "CIC" refers to the consolidated entity. The following table lists the subsidiaries and investments, including the respective business line, that CIC consolidates in its financial statements.

| Investment | Major Business Line | Form of Investment |
|---|---|---|
| Saskatchewan Government Insurance (SGI) | Property and Casualty | wholly-owned subsidiary |
| Saskatchewan Opportunities Corporation (SOCO) | Infrastructure | wholly-owned subsidiary |
| Saskatchewan Development Fund Corporation (SDFC) | Mutual Fund | wholly-owned subsidiary |
| Saskatchewan Government Growth Fund Management Corporation (SGGF MC) | Immigrant Investor | wholly-owned subsidiary |
| Saskatchewan Transportation Company (STC) | Passenger and Freight Transportation | wholly-owned subsidiary |

Utilities | Insurance | Commodity Based Investments | Economic Growth | Transportation

# Consolidated Financial Statements

## Management's Discussion and Analysis

### Major Lines of Business

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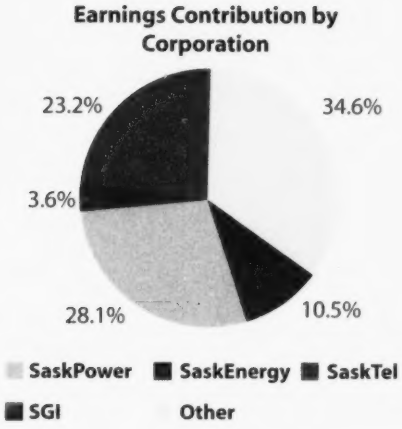
| Investment | Major Business Line | Form of Investment |
|---|---|---|
| Saskatchewan Power Corporation (SaskPower) | Electricity | wholly-owned subsidiary |
| Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications (collectively SaskTel) | Telecommunications | wholly-owned subsidiary |
| SaskEnergy Incorporated (SaskEnergy) | Natural Gas | wholly-owned subsidiary |
| Saskatchewan Water Corporation (SaskWater) | Water and Wastewater | wholly-owned subsidiary |
| Information Services Corporation of Saskatchewan (ISC) | Land and Property Registration Services | wholly-owned subsidiary |
| Saskatchewan Government Insurance (SGI) | Property and Casualty | wholly-owned subsidiary |
| Saskatchewan Opportunities Corporation (SOCO) | Infrastructure | wholly-owned subsidiary |
| Saskatchewan Development Fund Corporation (SDFC) | Mutual Fund | wholly-owned subsidiary |
| Saskatchewan Government Growth Fund Management Corporation (SGGF MC) | Immigrant Investor | wholly-owned subsidiary |
| Saskatchewan Transportation Company (STC) | Passenger and Freight Transportation | wholly-owned subsidiary |

Utilities | Insurance | Commodity Based Investments | Economic Growth | Transportation

## Results of Operations

**Crown Corporation Earnings (unaudited)**
for the nine months ended September 30, 2006

| $ Millions | | |
|---|---|---|
| SaskPower | $ | 99.6 |
| SaskTel | | 82.1 |
| SaskEnergy | | 12.8 |
| SGI | | 37.4 |
| Investment Saskatchewan | | 50.7 |
| ISC | | 6.6 |
| SaskWater | | 0.9 |
| STC | | 0.1 |
| SOCO | | 4.0 |
| CIC (Non-Consolidated) and Other | | 60.3 |
| Total | $ | 354.5 |




The Corporation's consolidated earnings for the third quarter beginning July 1, 2006 and ending September 30, 2006 were $89.0 million (2005 – loss of $34.3 million). Excluding income tax expense of $9.1 million (2005 - $15.2 million), and a gain on discontinued operations of $10.9 million (2005 – loss of $126.0 million - restated), earnings from ongoing operations for the three month period were $87.1 million (2005 - $106.9 million).

Year to date earnings for the nine months ending September 30, 2006 were $354.5 million (2005 - $202.7 million). Increased earnings to September 30, 2006 compared to the corresponding period in 2005 related primarily to improved differentials between light and heavy crude oil prices at NewGrade, lower insurance claim costs at SGI, and improved earnings at Investment Saskatchewan due to a non-recurring loss in the third quarter of 2005 due to a write down of its investment in Meadow Lake Pulp Limited Partnership.

The consolidation of certain investments in accordance with new GAAP accounting standards on variable interest entities has increased revenues and expenses, having the most significant impact on the results of Investment Saskatchewan. In accordance with the guideline, management has chosen not to apply this policy to prior year comparative results.

### Revenue

Revenues for the first nine months of 2006 were $3,182.6 million (2005 - $2,913.0 million), an increase of $269.6 million, primarily the result of increased operating revenues.

Operating revenues for the first nine months of 2006 were $3,115.6 million (2005 - $2,841.0 million). The $274.6 million increase was attributable to many factors. First, electrical sales increased as a result of a higher rate charged to customers relative to 2005, as well as increased prices and volumes for electrical exports. Secondly, the consolidation of certain investments, primarily Big Sky Farms Inc., as a result of new GAAP accounting standards increased the reported revenues in 2006. Third, higher market prices for light crude oil increased revenues at NewGrade. Finally, operating revenues at SaskTel improved significantly in both wireless and diversified business (e.g., data, internet and entertainment services) areas.

### Revenue (continued)

Investment earnings for the first nine months of 2006 were $61.3 million (2005 - $67.3 million). The $6.0 million decrease mainly reflects lower earnings from equity investments at Investment Saskatchewan.

### Expenses

Expenses for the first nine months of 2006 were $2,815.4 million (2005 - $2,539.7 million), an increase of $275.7 million. The increase was due primarily to the consolidation of certain investments, as mentioned previously, combined with increased costs for electricity trading. As well, restructuring costs and expenditures in support of expanded services increased operating expenses. These increases were partially offset by lower costs associated with insurance claims.

### Other

Current and future income tax expense in the first nine months was $40.7 million (2005 - $39.8 million), an increase of $0.9 million. The increase was primarily due to higher earnings at NewGrade. As well, the Corporation had a $20.0 million gain related to its discontinued operations to September 30, 2006 (2005 – loss of $127.6 million due to the write-down of Meadow Lake Pulp Limited Partnership) and a $7.8 million gain in non-recurring items (2005 - $3.2 million loss) related to the disposal of its investment in Hypor and the sale of a portion of Centennial Foods Partnership.

### Capital Spending

In the first nine months of 2006, CIC spent $903.1 million (2005 - $1,106.9 million) on investment and capital acquisitions. The $203.8 million decrease reflects a $177.1 million decrease in investing activity, due mainly to the timing of investment maturities within SGI's investment portfolio. In addition, SaskPower's purchase of plant and equipment decreased significantly from the prior year due to the timing of capital spending on its Centennial Wind Power Facility. This decrease was partially offset by increased capital spending at SaskTel related to its Next Generation Access Infrastructure program to increase bandwidth.

### Debt

Debt at September 30, 2006 was $3,521.6 million (December 31, 2005 - $3,608.5 million), a decrease of 2.4 per cent from year end.

### Utility Bundle Commitment

In the fall of 2003, the government indicated that Saskatchewan families will receive the package of basic utilities including home electricity, home natural gas, basic telephone rates and auto insurance at a total annual cost that is as low or lower than the same package in any other province in Canada. CIC, as the parent company, is monitoring the costs of providing the lowest cost for this bundle of services. Although it cannot be determined if CIC will need to provide a rebate in 2006, the Corporation has budgeted $54.0 million in 2006 to ensure the commitment is met.

### Liquidity

CIC and its subsidiary Crowns finance their capital requirements through internally generated cash flow and borrowing. The GRF borrows in capital markets on behalf of Crowns. The GRF has sufficient access to capital markets for anticipated borrowing requirements.

| Province of Saskatchewan Credit Ratings on Long-Term Debt as at September 30, 2006 | |
|---|---|
| Moody's Investor Service | Aa2 |
| Standard & Poor's [1] | AA |
| Dominion Bond Rating Service | A (high) |

[1] On August 4, 2006, Standard & Poor's updated the Province of Saskatchewan's long-term debt ranking to AA from AA-.

## Liquidity and Capital Resources

**Cash Flow Highlights**
(millions of dollars)

| | for the nine months ended | |
|---|---|---|
| | **September 30, 2006** | September 30, 2005 |
| Cash from operations | **$ 819.5** | $ 734.5 |
| Cash used in investing activities | **(395.8)** | (509.3) |
| Dividends paid | **(221.0)** | (263.0) |
| Debt proceeds received | **109.5** | 376.9 |
| Debt repaid | **(172.6)** | (204.5) |
| Other financing activities | **2.1** | 1.3 |
| Increase in cash | **$ 141.7** | $ 135.9 |

## Operating, Investing and Financing Activities

Cash from operations for the nine months ending September 30, 2006 was $819.5 million (2005 - $734.5 million). The $85.0 million increase was primarily due to stronger cash earnings relative to the same period last year.

Cash used in investing activities for the nine months ending September 30, 2006 was $395.8 million (2005 - $509.3 million). The $113.5 million decrease reflects a decrease in investing activity, due mainly to the timing of investment maturities within SGI's investment portfolio. In addition, SaskPower's purchase of plant and equipment decreased significantly from the prior year due to the timing of capital spending on its Centennial Wind Power Facility which was completed in March 2006. This decrease was partially offset by increased capital spending at SaskTel related to its Next Generation Access Infrastructure program to increase bandwidth.

Cash used in financing activities for the nine months ending September 30, 2006 was $282.1 million (2005 - $89.4 million). The $192.7 million increase mainly reflects a decrease in proceeds obtained from debt financing. One of the largest factors for decreased debt proceeds was significantly less debt placed by SaskPower in the current year relative to the same period last year as a result of its significant investment in capital projects in 2005. This was partially offset by lower dividends to the GRF ($221.0 million paid in 2006 compared to $263.0 million paid in 2005).

## Debt Management

CIC and its subsidiary Crowns prudently manage their debt to maintain their financial flexibility. The CIC Board has approved debt targets for CIC and its commercial subsidiaries that take into account their individual circumstances and industry benchmarks.

| Province of Saskatchewan Credit Ratings on Long-Term Debt as at September 30, 2006 | |
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## Liquidity and Capital Resources

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## Consolidated Statement of Financial Position

(unaudited)

| (thousands of dollars) | September 30 2006 | December 31 2005 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash | $ 157,358 | $ 41,229 |
| Short-term investments | 436,475 | 684,493 |
| Accounts receivable | 550,617 | 651,497 |
| Inventories and prepaid expenses | 348,263 | 311,734 |
| Assets from discontinued operations | 307,049 | 404,976 |
| | 1,799,762 | 2,093,929 |
| Long-term investments | 705,667 | 657,093 |
| Property, plant, and equipment | 5,798,519 | 5,688,140 |
| Other assets | 399,917 | 419,746 |
| Long-term assets of discontinued operations | 439,052 | 389,307 |
| | $ 9,142,917 | $ 9,248,215 |
| **LIABILITIES AND PROVINCE'S EQUITY** | | |
| Current | | |
| Bank indebtedness | $ 11,628 | $ 17,024 |
| Accounts payable and accrued liabilities | 600,082 | 722,123 |
| Notes payable | 85,686 | 109,308 |
| Dividend payable to General Revenue Fund | - | 221,000 |
| Deferred revenue | 209,667 | 190,969 |
| Income Taxes payable | 16,612 | 18,182 |
| Liabilities from discontinued operations | 146,582 | 164,630 |
| Long-term debt due within one year | 218,637 | 281,639 |
| | 1,288,894 | 1,724,875 |
| Long-term debt | 3,217,317 | 3,217,556 |
| Deferred revenue and other liabilities | 487,050 | 468,124 |
| Long-term liabilities from discontinued operations | 419,972 | 460,903 |
| | 5,413,233 | 5,871,458 |
| Province of Saskatchewan's Equity | | |
| Equity advances | 1,181,152 | 1,181,152 |
| Other equity items | (3,166) | (1,627) |
| Retained earnings | 2,551,698 | 2,197,232 |
| | 3,729,684 | 3,376,757 |
| | $ 9,142,917 | $ 9,248,215 |

Commitments and contingencies (Note 3)

(See accompanying notes)

## Consolidated Statement of Operations and Reinvested Earnings

(unaudited)

**For The Period**

(thousands of dollars)

| | 2006 July 1 to September 30 | 2006 January 1 to September 30 | 2005 July 1 to September 30 | 2005 January 1 to September 30 |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Sales of products and services | **$ 1,034,696** | **$ 3,115,645** | $ 924,187 | $ 2,840,991 |
| Investment | **20,345** | **61,305** | 18,858 | 67,326 |
| Other | **170** | **5,690** | 1,347 | 4,670 |
| | **1,055,211** | **3,182,640** | 944,392 | 2,912,987 |
| **EXPENSES** | | | | |
| Operating costs other than those listed below | **775,001** | **2,231,891** | 654,587 | 1,984,549 |
| Interest | **60,865** | **187,545** | 57,508 | 181,057 |
| Depreciation expense | **111,381** | **325,516** | 104,029 | 304,502 |
| Saskatchewan taxes and resource payments | **20,849** | **70,410** | 21,329 | 69,620 |
| | **968,096** | **2,815,362** | 837,453 | 2,539,728 |
| Earnings before the following | **87,115** | **367,278** | 106,939 | 373,259 |
| Income tax expense | **(9,076)** | **(40,651)** | (15,171) | (39,792) |
| Earnings (loss) from discontinued operations | **10,920** | **20,005** | (126,028) | (127,596) |
| Non-recurring items (Note 4) | **-** | **7,834** | - | (3,170) |
| **NET EARNINGS** | **88,959** | **354,466** | (34,260) | 202,701 |
| **RETAINED EARNINGS, BEGINNING OF PERIOD** | **2,462,739** | **2,197,232** | 2,318,461 | 2,081,500 |
| **DIVIDEND TO GENERAL REVENUE FUND** | **-** | **-** | - | - |
| **REINVESTED EARNINGS, END OF PERIOD** | **$ 2,551,698** | **$ 2,551,698** | $ 2,284,201 | $ 2,284,201 |

(See accompanying notes)

## Consolidated Statement of Cash Flows

(unaudited)
**For The Period**
(thousands of dollars)

| | 2006 July 1 to September 30 | 2006 January 1 to September 30 | 2005 July 1 to September 30 | 2005 January 1 to September 30 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net earnings | **$ 88,959** | **$ 354,466** | $ (34,260) | $ 202,701 |
| Items not affecting cash from operations | **79,373** | **325,626** | 154,767 | 358,029 |
| | **168,332** | **680,092** | 120,507 | 560,730 |
| Net change in non-cash working capital balances related to operations | **177,297** | **152,616** | 186,913 | 173,353 |
| Cash provided by operating activities from continuing operations | **345,629** | **832,708** | 307,420 | 734,083 |
| Cash provided by operating activities from discontinued operations | **(52,982)** | **(13,153)** | (37,248) | 459 |
| **Cash provided by operating activities** | **292,647** | **819,555** | 270,172 | 734,542 |
| **INVESTING ACTIVITIES** | | | | |
| Purchase of investments | **(156,214)** | **(483,560)** | (256,662) | (660,651) |
| Proceeds from sales and collections of investments | **128,972** | **512,482** | 262,641 | 657,589 |
| Purchase of property, plant, and equipment | **(158,173)** | **(419,523)** | (175,119) | (446,259) |
| Proceeds from sale of property, plant, and equipment | **182** | **2,324** | 755 | 936 |
| Increase in other assets | **(1,137)** | **(7,493)** | (10,073) | (60,937) |
| **Cash used in investing activities** | **(186,370)** | **(395,770)** | (178,458) | (509,322) |
| **FINANCING ACTIVITIES** | | | | |
| (Decrease) increase in notes payable | **(18,136)** | **(23,622)** | 6,195 | (80,614) |
| Increase in deferred revenue and other liabilities | **1,600** | **2,100** | (10,229) | 1,300 |
| Long-term debt proceeds from General Revenue Fund | **-** | **102,398** | 150 | 373,076 |
| Long-term debt repayments to General Revenue Fund | **(46,816)** | **(87,377)** | (42,641) | (105,483) |
| Long-term debt proceeds from other lenders | **5,866** | **7,066** | 3,808 | 3,808 |
| Long-term debt repayments to other lenders | **(24,362)** | **(61,669)** | (5,264) | (18,445) |
| Dividend paid to General Revenue Fund | **-** | **(221,000)** | - | (263,000) |
| **Cash used in financing activities** | **(81,848)** | **(282,104)** | (47,981) | (89,358) |
| **NET INCREASE IN CASH DURING PERIOD** | **24,429** | **141,681** | 43,733 | 135,862 |
| **CASH POSITION, BEGINNING OF PERIOD** | **191,945** | **74,693** | 88,684 | (3,445) |
| **CASH POSITION, END OF PERIOD** | **$ 216,374** | **$ 216,374** | $ 132,417 | $ 132,417 |
| Cash position consists of: | | | | |
| Cash from continuing operations | **$ 157,358** | **$ 157,358** | $ 145,805 | $ 145,805 |
| Bank indebtedness from continuing operations | **(11,628)** | **(11,628)** | (16,048) | (16,048) |
| | **145,730** | **145,730** | 129,757 | 129,757 |
| Cash from discontinued operations | **70,644** | **70,644** | 2,660 | 2,660 |
| | **$ 216,374** | **$ 216,374** | $ 132,417 | $ 132,417 |

(See accompanying notes)

## Notes to Consolidated Financial Statements

(unaudited)

**September 30, 2006**

### 1. Summary of Significant Accounting Policies

The interim consolidated financial statements of Crown Investments Corporation of Saskatchewan (CIC) do not contain all of the disclosures included in CIC's annual consolidated financial statements. Accordingly, these interim financial statements should be read in conjunction with CIC's most recent annual statement released on April 27, 2006.

The preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenses. Actual amounts could differ from these estimates.

The accounting policies used in the preparation of these interim financial statements conform with those used in the most recent annual statements.

**a) Consolidation Principles and Basis of Presentation**

Certain Saskatchewan provincial Crown corporations are designated as subsidiary Crown corporations of Crown Investments Corporation of Saskatchewan (CIC) under *The Crown Corporations Act, 1993* (the Act). In addition, certain Saskatchewan provincial Crown corporations created under the Act are CIC Crown corporations. The Act assigns specific financial and other responsibilities regarding these corporations to CIC.

In addition to the Crown corporations listed below, the accounts of Gradworks Inc., and First Nations and Métis Fund Inc., wholly-owned share capital subsidiaries of CIC, are consolidated in these financial statements.

Separate unaudited interim financial statements for CIC have been prepared on a non-consolidated basis to show the financial position and results of operations of the corporate entity. In addition, separate unaudited interim financial statements for each of the undernoted Crown corporations are prepared and released publicly.

The following Crown corporations have been designated or created as subsidiary Crown corporations of CIC and have been consolidated in these interim financial statements:

Information Services Corporation of Saskatchewan
Investment Saskatchewan Inc.
SaskEnergy Incorporated
Saskatchewan Development Fund Corporation
Saskatchewan Government Growth Fund Management Corporation
Saskatchewan Government Insurance
Saskatchewan Opportunities Corporation
Saskatchewan Power Corporation
Saskatchewan Telecommunications
Saskatchewan Telecommunications Holding Corporation
Saskatchewan Transportation Company
Saskatchewan Water Corporation

Throughout these interim financial statements the phrase "the Corporation" is used to collectively describe the activities of the consolidated entity.

1. Summary of Significant Accounting Policies (continued)

**b) Joint Ventures**

The Corporation's shares of jointly controlled enterprises included in these interim financial statements are as follows:

| | |
|---|---|
| Canadian Power Consultants | 14% |
| Centennial Foods Partnership | 35% |
| Cory Cogeneration Funding Corporation | 50% |
| Cory Cogeneration Joint Venture | 50% |
| Foragen Technologies Limited Partnership | 33% |
| Heritage Gas Limited | 50% |
| Hypor B.V. (Note 4) | 50% |
| Hypor LP (Note 4) | 50% |
| NewGrade Energy Inc. | 50% |

**c) Revenue Recognition**

Revenue from utility and other services is recognized when the services are delivered to customers. The estimate of services rendered but not billed is included in accounts receivable. Revenue from various telecommunications, directory, internet, entertainment and equipment sales are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Revenues from insurance premiums written are taken into income over the terms of the related policies which are no longer than twelve months. Revenue from sales of reconstituted and synthetic crude are recorded on the basis of regular meter readings. Revenue from sales of other products is recognized when goods are shipped and title has passed to the customer or based on the right to revenue pursuant to contracts with customers, tenants and clients.

Interest earned on long-term investments is recognized on the accrual basis except where uncertainty exists as to ultimate collection. In cases where collectibility of interest is not reasonably assured, interest income is recorded when it is received, and accrued interest receivable is offset by deferred interest income.

**d) Competitive Gas Sales**

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

## 1. Summary of Significant Accounting Policies (continued)

**e) Electricity Trading Sales**

Electricity trading revenues are reported on a gross basis unless the Corporation is acting in the capacity of an agent or broker, in which case revenues are recorded net of purchases. The Corporation acts as a principal in electricity trading transactions taking title to the electricity purchased for resale and assuming the risks and rewards of ownership. Therefore, electricity trading revenues are recorded on a gross basis.

**f) Use of Estimates**

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

## 2. Status of Crown Investments Corporation of Saskatchewan

Crown Investments Corporation of Saskatchewan was established by Order in Council 535/47 dated April 2, 1947, and is continued under the provisions of *The Crown Corporations Act, 1993*. The Corporation is an agent of Her Majesty in Right of the Province of Saskatchewan, and as a Provincial Crown corporation is not subject to Federal and Provincial income taxes. Certain jointly controlled enterprises are not Provincial Crown corporations and are subject to Federal and Provincial income taxes.

## 3. Contingencies

a) The Corporation has various legal matters pending which, in the opinion of management, will not have a material effect on the Corporation's consolidated financial position or results of operations.

b) On August 9, 2005, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including the Corporation. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Corporation believes that it has strong defences to the allegations. Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of the corporation could result.

c) The Corporation has committed to invest $26.9 million of subordinated debt in a new 150 million litre-per-year ethanol plant at Belle Plain, Saskatchewan. Construction of the plant is currently underway and is expected to be in full production by the end of 2007.

## 4. Discontinued Operations

### Hypor

In February 2006, the Corporation completed the sale of all of its ownership interests in Hypor LP, Hypor B.V. and Euribrid Espana S.A. for proceeds of $15.8 million, resulting in a gain on sale of $5.3 million. The Corporation also received full repayment of the $2.3 million loan advanced to Hypor LP.

### Crown Life Insurance Company

In April 2006, the shareholders of Crown Life triggered the second and final close of the sale of Crown Life to Canada Life. The final close will result in the distribution of cash and invested assets to the shareholders, and is expected to take place in early 2007.

### Centennial Foods Partnership

In February 2006, the Corporation disposed of its interest of New Food Classics Partnership. The Corporation anticipates disposing of its interest in Centennial Foodservice Partnership in early 2007.

### Meadow Lake Pulp Limited Partnership (MLPLP)

On December 28, 2005, MLPLP obtained creditor protection under the Companies' Creditors Arrangement Act ("CCAA"). The CCAA Order provided for a 30 day general stay period that expired on January 27, 2006, and has been extended to December 4, 2006. The stay generally precludes parties from taking any actions against MLPLP for breach of contractual or other obligations. The CCAA process will also provide time in which to investigate all options with respect to the future of the mill including the development of a cost reduction plan and pursuing potential purchasers of the mill.

On January 9, 2006, the Corporation approved the provision of up to $15.0 million in Debtor-in Possession (DIP) financing to the pulp mill. The purpose of this temporary short-term liquidity facility is to assist the pulp mill during its restructuring efforts. The DIP facility is secured by mortgages, general security agreements, share pledges in respect of all shares owned by or on behalf of the Borrowers, and other interests, fixed and floating charge debentures, security interests, hypothecs or equivalent, including without limitation, mortgages on all real property, first in priority against all assets of the pulp mill, subject only to the Administrative Charge and the Directors' Charge as provided in the CCAA Order and to the prior security of HSBC Bank Canada. The Corporation has advanced the full $15.0 million of DIP financing to MLPLP in the first three months of 2006.

The Corporation is continuing its efforts to dispose of its interest in MLPLP during 2006.

## 5. Saskatchewan Energy Share

In November 2005, the Government of Saskatchewan approved an appropriation of $123.9 million to establish the Saskatchewan Energy Share. The appropriation relates to the period November 1, 2005 to March 31, 2006 as it was designed to assist natural gas consumers in dealing with high natural gas prices during the winter of 2005/2006.

The Saskatchewan Energy Share included a specific appropriation of $92.0 million to be used by the Corporation to cap the cost of natural gas sold to customers at $7.95 per gigajoule during the period November 1, 2005 to March 31, 2006. For each month during this period, SaskEnergy calculated its actual cost per gigajoule of natural gas and compared to this amount to the cap of $7.95 per gigajoule. Based on estimates of sales volumes, the Corporation's actual cost of gas for January, February, and March 2006 was above the cap of $7.95 per gigajoule and accordingly, the Corporation received $20.5 million from the Saskatchewan Energy Share.

Certain natural gas consumers in Lloydminster, Saskatchewan receive their natural gas service from Direct Energy Regulated Services (a supplier based in Alberta). Under the Saskatchewan Energy Share $1.0 million was allocated to provide eligible Lloydminster customers with a one time credit of $200. This credit was provided to these customers in 2006. During the month of March 2006, the Corporation reimbursed Direct Energy Regulated Services for these credits and in turn recovered this amount from the Saskatchewan Energy Share. The cost of this initiative was $0.5 million.

## 6. Comparative Figures

Certain of the 2005 comparative figures have been reclassified to conform to the current year's presentation.

# Non-Consolidated Financial Statements

## Management's Discussion and Analysis

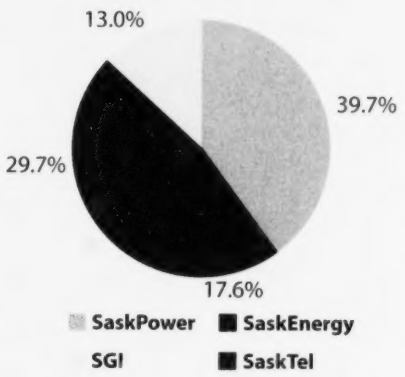
CIC is the provincial government's holding company for its commercial Crowns. CIC has invested equity in its subsidiary Crown corporations and collects dividends from these corporations based on their profitability. CIC also holds the Province's investment in NewGrade Energy Inc.

This narrative on CIC's non-consolidated September 30, 2006 third quarter results should be read in conjunction with the September 30, 2006 unaudited non-consolidated financial statements.

The unaudited interim non-consolidated financial statements do not contain all the disclosures included in CIC's annual audited non-consolidated financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with CIC's most recent annual non-consolidated financial statements released on April 27, 2006.

For the purposes of this narrative on CIC's non-consolidated financial results, "CIC" refers to the holding company.

**Dividend Revenue**




| CIC Non-Consolidated Third Quarter Earnings (unaudited) | | ($ Millions) |
|---|---|---|
| Dividend revenue from Crown corporations | | $ 126.5 |
| Add: | Interest and other revenue | 4.9 |
| Less: | General, administrative, and other expenses | (8.9) |
| | Grants to subsidiaries | (10.3) |
| **Total Non-Consolidated Earnings** | | $ 112.2 |

### Earnings

Earnings for the nine months ending September 30, 2006 were $112.2 million (2005 - $150.2 million), a decrease of $38.0 million from the same period in 2005. The decrease is primarily due to a decrease in dividend revenue from CIC's subsidiary Crown corporations of $33.4 million, an increase in grants to related corporations of $4.3 million, offset by an increase in interest revenue of $1.9 million.

### Dividend Revenue

Dividend revenue for the nine months ended September 30, 2006 was $126.5 million (2005 - $159.9 million). The $33.4 million decrease was due to lower dividends from SaskTel ($25.6 million), SaskPower ($6.9 million), and SaskEnergy ($1.8 million), partially offset by increased dividends from SGI ($0.9 million).

For the third quarter of each year, dividends from subsidiary Crown corporations are based on 75 percent of their forecasted dividend for the year. The forecasted dividend is calculated under CIC's dividend policy which applies a percentage payout of net earnings based on the overall financial health of the subsidiary Crown and its need for capital investment. For the remaining fourth quarter dividend payment, the amount is adjusted to a percentage of actual earnings. For the current year, CIC has assumed payout rates of 71 percent of earnings at SaskTel and 65 percent of earnings at SaskPower, SaskEnergy and SGI. These payout rates reflect the need of these subsidiary corporations to retain capital to move to or to maintain their respective industry benchmarked financial structure and to upgrade infrastructure.

CIC's dividend policy does not apply to NewGrade. Dividends from NewGrade are determined by its Board of Directors and are paid to CIC in December of each fiscal year.

### Administrative Expenses

Expenses were $8.9 million for the nine months ended September 30, 2006 (2005 - $6.7 million). The increase of $2.2 million was due mainly to increased consulting costs and increased costs for salaries and benefits.

During the first nine months of 2006, CIC provided $5.4 million in grants to STC (2005 - $4.7 million), $2.9 million (2005 - $Nil) in grants to SaskEnergy to fund the EnerGuide for Houses Grant Program and $1.4 million (2005 - $1.3 million) to Gradworks Inc., a non-profit subsidiary of CIC which provides recent post-secondary graduates with internships in CIC subsidiary Crown corporations.

CIC's 2006 budget includes public policy and grant funding expenditures as follows: $5.0 million in operating grants and $10.7 million in capital grants to STC, of which $8.8 million of the capital grants is allocated for funding the new head office and bus terminal in Regina; $9.6 million of funding to SaskEnergy for the EnerGuide for Houses program; and, $2.7 million of operating grants to Gradworks. CIC has also budgeted for $54.0 million in public policy expenditures related to the lowest cost utility bundle commitment.

### Liquidity and Capital Resources

**Cash Flow Highlights**
(thousands of dollars)

| | for the nine months ended | |
|---|---|---|
| | **September 30 2006** | September 30 2005 |
| Cash from operations | **$ 116.6** | $ 230.3 |
| Cash used in investing activities | **(0.7)** | (25.1) |
| Dividends paid | **(221.0)** | (263.0) |
| Decrease in cash | **$ (105.1)** | $ (57.8) |

### Liquidity

CIC finances its capital requirements through internally-generated cash flow and through borrowing from the GRF. The GRF borrows on CIC's behalf in capital markets.

## Operating, Investing and Financing Activities

Cash from operations for the nine months ended September 30, 2006 was $116.6 million (2005 - $230.3 million). The $113.7 million decrease was due mainly to lower dividends collected in the third quarter of 2006 compared to 2005.

Cash used in investing activities for the nine months ended September 30, 2006 was $0.7 million (2005 - $25.1 million). The $24.4 million decrease was due mainly to $25.0 million in new equity that was provided to SGI for expansion into Alberta. In November 2005, the government announced that a fund would be set up to assist aspiring entrepreneurs in Saskatchewan. CIC will provide up to $25.0 million to the Saskatchewan Entrepreneurial Fund over the next five years. As of September 30, 2006, CIC has invested $0.6 million in the Saskatchewan Entrepreneurial Fund.

Cash used in financing activities was $221.0 million (2005 - $263.0 million). Financing activities in 2006 consisted of dividends paid to the GRF.

## Debt Management

CIC has no debt. As a separate legal entity, CIC does not expect to borrow in 2006.

## Outlook and Key Factors Affecting Performance

The key factor affecting CIC's earnings are the level of dividends from commercial subsidiary Crown corporations and its joint venture NewGrade.

Factors affecting the level of dividends from subsidiary Crowns include the level of profits and the application of CIC's subsidiary dividend policy. The CIC Board determines dividends from a commercial subsidiary after allocating cash for reinvestment within the Crown to sustain operations, to grow and to diversify, and for debt reduction if necessary. CIC expects aggregate dividends declared by its commercial subsidiaries in 2006 to be comparable to dividends declared in 2005.

Dividends from NewGrade are determined by its Board of Directors and are based on available surplus cash flow. The most significant factor in determining its profitability is the difference in price between heavy and light crude oil. Given the high differential that exists between current market prices, CIC projects continued strong dividends from NewGrade in 2006.

In the fall of 2003, the government indicated that Saskatchewan families will receive the package of basic utilities including home electricity, home natural gas, basic telephone rates and auto insurance at a total annual cost that is as low or lower than the same package in any other province in Canada. For 2006, CIC has budgeted $54.0 million to ensure the lowest bundle commitment is met.

CIC regularly assesses the appropriateness of the carrying value for its investments, and writes down an investment if it judges there to be a permanent impairment in carrying value. CIC regularly reviews its investments with private sector partners to determine the appropriateness of retention or sale.

## Non-Consolidated Statement of Financial Position

(unaudited)
(thousands of dollars)

| | September 30 2006 | December 31 2005 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash and short-term investments | **$ 184,567** | $ 289,645 |
| Interest and accounts receivable | **250** | 499 |
| Dividends receivable | **31,114** | 35,033 |
| | **215,931** | 325,177 |
| Equity advances to Crown corporations | **1,075,382** | 1,075,382 |
| Investments in share capital corporations | **378,019** | 377,469 |
| Equipment | **527** | 504 |
| | **$ 1,669,859** | $ 1,778,532 |
| **LIABILITIES AND PROVINCE'S EQUITY** | | |
| Interest and accounts payable | **$ 2,557** | $ 2,423 |
| Dividend payable to General Revenue Fund | **-** | 221,000 |
| | **2,557** | 223,423 |
| Province of Saskatchewan's Equity | | |
| Equity advances | **1,181,152** | 1,181,152 |
| Retained earnings | **486,150** | 373,957 |
| | **1,667,302** | 1,555,109 |
| | **$ 1,669,859** | $ 1,778,532 |

Commitments (Note 3)
(See accompanying notes)

## Non-Consolidated Statement of Operations and Retained Earnings

(unaudited)
**For The Period**
(thousands of dollars)

| | 2006 July 1 to September 30 | 2006 January 1 to September 30 | 2005 July 1 to September 30 | 2005 January 1 to September 30 |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Dividend (Note 4) | **$ 31,114** | **$ 126,501** | $ 38,371 | $ 159,897 |
| Interest | **1,529** | **4,888** | 924 | 3,053 |
| Other | **6** | **43** | 3 | 21 |
| | **32,649** | **131,432** | 39,298 | 162,971 |
| **EXPENSES** | | | | |
| General, administrative and other | **2,615** | **8,812** | 2,532 | 6,484 |
| Depreciation | **19** | **112** | 71 | 204 |
| | **2,634** | **8,924** | 2,603 | 6,688 |
| Earnings before the following | **30,015** | **122,508** | 36,695 | 156,283 |
| Grant to Saskatchewan Transportation Company | **(2,400)** | **(5,400)** | (1,900) | (4,700) |
| Grant to SaskEnergy | **(1,286)** | **(2,886)** | - | - |
| Grant to Gradworks Inc. | **-** | **(1,442)** | (550) | (1,322) |
| Other grant funding | **(110)** | **(587)** | (30) | (30) |
| **NET EARNINGS** | **26,219** | **112,193** | 34,215 | 150,231 |
| **RETAINED EARNINGS, BEGINNING OF PERIOD** | **459,931** | **373,957** | 462,836 | 346,820 |
| | **486,150** | **486,150** | 497,051 | 497,051 |
| **DIVIDEND TO GENERAL REVENUE FUND** | **-** | **-** | - | - |
| **RETAINED EARNINGS, END OF PERIOD** | **$ 486,150** | **$ 486,150** | $ 497,051 | $ 497,501 |

(See accompanying notes)

## Non-Consolidated Statement of Cash Flows

(unaudited)
**For The Period**
(thousands of dollars)

| | 2006 July 1 to September 30 | 2006 January 1 to September 30 | 2005 July 1 to September 30 | 2005 January 1 to September 30 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net earnings | **$ 26,219** | **$ 112,193** | $ 34,215 | $ 150,231 |
| Add (deduct) non-cash items: | | | | |
| Depreciation | **19** | **112** | 71 | 204 |
| | **26,238** | **112,305** | 34,286 | 150,435 |
| Net change in non-cash working capital balances related to operations | **15,584** | **4,302** | 21,840 | 79,913 |
| **Cash provided by operating activities** | **41,822** | **116,607** | 56,126 | 230,348 |
| **INVESTING ACTIVITIES** | | | | |
| Purchase of investments | **(300)** | **(550)** | (25,000) | (25,000) |
| Purchase of equipment | **(49)** | **(135)** | (62) | (137) |
| **Cash used in investing activities** | **(349)** | **(685)** | (25,062) | (25,137) |
| **FINANCING ACTIVITIES** | | | | |
| Dividend paid | **-** | **(221,000)** | - | (263,000) |
| **Cash used in financing activities** | **-** | **(221,000)** | - | (263,000) |
| **NET CHANGE IN CASH DURING PERIOD** | **41,473** | **(105,078)** | 31,064 | (57,789) |
| **CASH POSITION, BEGINNING OF PERIOD** | **143,094** | **289,645** | 156,484 | 245,337 |
| **CASH POSITION, END OF PERIOD** | **$ 184,567** | **$ 184,567** | $ 187,548 | $ 187,548 |

(See accompanying notes)

## Notes to Non-Consolidated Financial Statements

(unaudited)

**September 30, 2006**

### 1. Summary of Significant Accounting Policies

The interim non-consolidated financial statements of Crown Investments Corporation of Saskatchewan (CIC) do not contain all of the disclosures included in CIC's annual non-consolidated financial statements. Accordingly, these interim financial statements should be read in conjunction with CIC's most recent annual statement released on April 27, 2006.

The accounting policies used in the preparation of these interim financial statements conform with those used in the most recent annual statements.

### 2. Status of Crown Investments Corporation of Saskatchewan

The Government Finance Office was established by Order in Council 535/47 dated April 2, 1947, and was continued under the provision of *The Crown Corporations Act, 1993* (the Act), as Crown Investments Corporation of Saskatchewan. CIC is an agent of Her Majesty in Right of the Province of Saskatchewan and as a Provincial Crown corporation is not subject to Federal and Provincial income taxes.

The Act assigns specific financial and other responsibilities to CIC regarding Crown corporations designated or created as subsidiary Crown corporations of CIC under the Act. The following corporations have been designated or created by Order in Council:

Information Services Corporation of Saskatchewan
Investment Saskatchewan Inc.
SaskEnergy Incorporated
Saskatchewan Development Fund Corporation
Saskatchewan Government Growth Fund Management Corporation
Saskatchewan Government Insurance
Saskatchewan Opportunities Corporation
Saskatchewan Power Corporation
Saskatchewan Telecommunications Holding Corporation
Saskatchewan Telecommunications
Saskatchewan Transportation Company
Saskatchewan Water Corporation

In addition to the above Crown corporations, CIC is the sole member of Gradworks Inc., a non-profit corporation and sole shareholder of First Nations and Métis Fund Inc., a Business Corporation Act company.

### 3. Commitments

CIC has agreed to fund, through capital grants, Saskatchewan Transportation Company's new terminal facilities in Regina. CIC is expecting to fund $8.8 million of the commitment in 2006.

## 4. Dividend Revenue

Dividend revenue consists of the following:
(thousands of dollars)

| | 2006 | 2005 |
|---|---|---|
| Saskatchewan Telecommunications Holding Corporation | **$ 37,500** | $ 63,082 |
| Saskatchewan Power Corporation | **50,213** | 57,104 |
| SaskEnergy Incorporated | **22,300** | 24,100 |
| Saskatchewan Government Insurance | **16,488** | 15,611 |
| | **$ 126,501** | $ 159,897 |